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Economic Conditions
Governmental Finance
United States Securities

New York, March, 1923.

General Business Conditions

THERE has been no slackening of industry or trade as the Winter has passed, but rather increasing strength and confidence. Railroad traffic has been the heaviest ever experienced for the season. Unemployment practically has disappeared from the principal industries and in its place labor shortage is reported. In many lines the activity is greater than at any time since 1920, and in numerous cases close to capacity. This is true of the textiles, iron and steel and automobiles. The number of cotton spindles in use in January for the first time passed 35,000,000 and the consumption of cotton totaled 610,375 bales, which has been exceeded only in March, 1916, and May, 1917. The copper situation has been cleared up of overhanging stock, the foreign market is reported as more active, and the domestic price has touched 16½ cents. Lead is up to 8.10 cents per pound, New York; tin and zinc are both higher. Raw cotton is close to 30 cents per pound, and the sugar market has been disturbed by government figures indicating a reduction of the carry-over at the end of the present crop year.

The Danger of Inflation

The upward movement has stimulated the talk about inflation, and aroused apprehension that the business revival may be short-lived, and that merchants who are buying for next Fall's trade may be caught with high-priced goods which the public will not take.

It is true that conditions are yet unsettled. After such a great rise as occurred during the war and continued in 1919 and 1920, followed by such a great slump as that beginning in the Fall of 1920 and continuing in 1921, it is inevitable that considerable fluctuations will be experienced before a normal equilibrium is established. Industrial conditions are still tossing, like the waves of the sea after a great storm. In such a slump as that of 1921 prices always go too low, and when normal buying is resumed a recovery ensues. If the recovery movement catches the public with low stocks, there is danger that the rise may go beyond the level at which it can be sustained, and thus prices may oscillate until the spasmodic movements gradually lose their force and greater stability is attained.

There is no reason to be alarmed over a movement of recovery from the low prices of 1921, for such a movement was bound to come. It came first in raw materials, and the prices of finished goods must conform. Naturally, also, normal profits must be allowed for where the various factors have been rendering services without them. Such readjustments do not signify inflation. On the other hand, every upward movement is in danger of running away, and all parties concerned should endeavor to avert this danger. The talk of restoring wages in the textile industry to the high level of 1920 is a menace. The country cannot stand a general rise of industrial costs. It needs further reductions to assure stability.

The Explanation of Recovery

The industrial depression identified with the panic of 1873 began some months before the panic and lasted until 1878, about five years. The one identified with the panic of 1893 lasted until 1898, although there was a brief revival in 1895. In both of these cases recovery was helped by a revival of foreign demand for our products, the first impetus seeming to come from this source. Considering the violence of the price decline and the fact that Europe instead of giving help has been a drag upon us, the recovery of this country from the depression which began in the last quarter of 1920 has been remarkably speedy. In reviewing the situation we are moved to reproduce the following from the November, 1920, number of this publication:

> There are good reasons for confidently believing that this country is not going into a long period of depression. Such experiences in the past always have followed long periods of internal development, including extensive construction work, such as railroad-building, town-building, etc. Our periods of prosperity and credit expansion have been of this character, and it has usually happened that the movement has overrun the needs of the country at the time, and a period of growth was required afterward to bring the country up to its new facilities. This was the case in 1873 and 1893, the two most

important crises of our recent history. In the period following 1893 recovery was delayed by the controversy over the money question.

The boom period which has been responsible for the existing expansion of credit and high prices was not due to internal development or construction work; on the contrary it interfered with normal development and improvements, and the facilities of the country are behind its needs. Never before was there so much work in sight needing to be done, or so many opportunities in the world outside. The immediate problem is that of price readjustment. It is not a case of exhaustion or of waiting to grow up to investments that have been made.

These comments have been justified. The period of depression was not a long one, judged by such periods in the past. Recovery began within about one year from the beginning of the slump. The price recovery in agricultural products was well under way one year ago. As agricultural products advanced and other things declined the approach to normal balance aided all business. Another favorable factor has been the fact referred to above, that a great amount of construction work belonging properly to the years 1915-1920 was left undone and had to be made up. The revival of construction work, in private dwellings, public buildings, office buildings, highways, and railroad equipment has been a leading influence in the revival of business during the past year, and the fact that this work is reasonably certain to go on throughout 1923 is the most substantial assurance that general business will continue active throughout the year. Building permits issued in January exceeded in amount of contemplated expenditures in any January on record, and the amount of railway equipment under order on February 1st was greater than at any previous time on record.

That farm products are not yet in balance with other things is a factor to be taken into account, but the farmer's gains have been very important, and over against a loss of buying power in that quarter may be set the unusual stimulus given by the activities named above. These are involving expenditures above normal, greater, indeed, than will be maintained over an average period of years.

The final figures of the Department of Agriculture show that the value of farm products in 1922 aggregated $2,000,000,000 more than in 1921, and the crops were made at no greater cost.

There is yet another factor in the farmer's situation which may be considered, and that is whether the industrial situation was not out of balance in the farmer's favor in the years immediately preceding the war. From 1897 onward the position of the farmer underwent great improvement in the exchanges. The prices of his products advanced in those years very much more than the average of all the other commodities included in the price tables of the Bureau of Labor, the figures of the Bureau showing that farm products in 1914 were 177 per cent of average prices in the period 1890-9, while "all commodities," including farm products, were 134 per cent of that base.

In other words, during the steady rise of farm products from 1898 to 1914, wages in the cities did not fully keep pace; in the great rise from 1915 to 1920 both went up, and in the slump from 1920 the farmer has failed to hold all that he gained in the 1898-1914 period. He may recover it yet, for the pressure of a growing population is on his side, but there is also to be considered whether he has not made gains in productive capacity in the meantime enabling him to produce at lower cost.

The Live Stock Situation

Mr. John Clay, the veteran live stock operator of Chicago, under date of February 15, 1923, writes as follows:

Changing Conditions

Two years ago today I wrote upon this subject. Then we were in the throes of deflation. The worst had passed but the effects were still being keenly felt. The road ahead was not an easy one. All, however, was not dark, because there were indications of better conditions, not pronounced but still some glimmers of light on the horizon. Wild speculation had had its day; the price had been paid (and paid dearly) and sanity was replacing senselessness

A year later I again touched on the same subject in these columns. We had seen considerable light in the fall of '21, particularly upon sheep, with a revival in wool and a rapidly rising lamb market. Hogs were making a splendid profit for producers, cattle dragging but nevertheless slowly improving. Economy was the watchword, and it was being hitched and driven to its teammate, Efficiency.

The year 1922 was a march of progress, and live stock producers, except, alas, western grass cattlemen, wound up the year in a satisfactory manner.

Today the live stock business is upon a sound, stable basis. So are other lines of industry. The storms have been weathered, and the ship rides in comparatively calm waters.

Cattle are a little sluggish, hogs not quite as high as a year ago, but upon a profitable basis, sheep and lambs on a high plane, wool and by-products generally very active. It costs more to feed, it is true, but grain at its present value simply augments the grower's assets and puts him in sounder financial condition.

The light shines and the agricultural mariner can see his course clear ahead.

Agricultural Implements

All accounts agree that the outlook for the agricultural implement manufacturers is decidedly better than in either of the last two years. The extent to which implement sales fell off is indicated by the following figures compiled by the Federal Reserve Bank of Minneapolis, as the aggregate sales of seven implement concerns in that district:

Year	
1919	$7,512,967
1920	8,153,544
1921	3,657,708
1922	4,210,278

Government Price Statistics

The Bureau of Labor Statistics reports the January index number of prices as 156, which was the same as in December and November. Following are figures giving the Labor De-

partment's price comparisons at the high point (May) of 1920, the low point (January) of 1922, and those for November and December, 1922, and January, 1923:

Group	May, 1920	Jan., 1922	Nov., 1922	Dec., 1922	Jan., 1923
Farm products	241	122	143	145	143
Food, etc.	248	131	143	144	141
Cloths and clothing	328	176	192	194	196
Fuel and lighting	239	195	218	216	218
Metals and metal prod...	202	112	133	131	133
Building materials	293	157	185	185	188
Chemicals and drugs	213	124	127	130	131
House furnishing goods	247	178	179	182	184
Miscellaneous	208	117	122	122	124
All commodities	247	138	156	156	156

Comparing with a year ago, prices as a whole are reported 13 per cent higher. The retail food index issued by the United States Department of Labor through the Bureau of Labor Statistics shows that for the year period January 15, 1922, to January 15, 1923, the increase in all articles of food combined was 2 per cent. For the ten-year period January 15, 1913, to January 13, 1923, the increase in all articles of food combined was 47 per cent.

Money and Banking

The most noteworthy event of the past month in the banking situation was the action of the Federal Reserve banks of Boston and New York advancing the rate of discount from 4 to 4½ per cent, the rate already prevailing at all the other reserve banks excepting that at San Francisco. The advance has the effect of bringing the two banks into line with the reserve banks of the interior, and of discouraging any tendency to shift expanding demands from the other districts to the two centers.

Notwithstanding the pronounced revival of business, which has been under way for now more than a year, there has been no very marked increase in the demands upon the reserve banks. The liquidation of frozen credits on hand with the member banks since the boom has supplied them until very recently with the means for meeting new demands without resorting to the reserve banks. Thus, leaving out the New York bank, the low point in earning assets for all the other reserve banks was touched so recently as January 31, 1923. On the other hand, the low point for the New York bank was touched on January 25, 1922, at $120,686,000, and on February 21, 1923, had risen to $311,349,000. These figures compare with earning assets for New York in 1920 above $1,000,000,000. The ratio of total reserves to total deposit and note liabilities on February 21 was 75.8 per cent.

Credit Resources in Reserve

Evidently there is nothing in the present situation which calls urgently for action to check inflation, but the volume of business is increasing and prices are generally advancing, both forecasting an increased demand for credit. While there still is a considerable amount of frozen credit to be released in some sections of the country, it is not to be supposed that there is now any large amount of idle bank credit available without recourse to the reserve banks, and this being so it is possible that the demands on the latter might increase suddenly and rapidly. It is therefore well for these institutions to set their houses in order. The country does not want a rapid increase of demand on the reserve banks. The resources of the member and non-member local banks are ample to finance the business of the country on a sound basis, and if the business is kept within this limit it will be likely to run a steadier and more satisfactory course than if more credit is used. Knowledge that the reserve banks are behind the situation with great resources at their command will impart greater stability to it than would the use of those resources. It is to be borne in mind that when the labor supply of the country is fully employed the limits of industrial expansion have been practically reached, and production cannot be increased by the mere use of credit. That is where inflation begins, and the banks should be on their guard against it.

The country does not want any more experience on the line of locking the stable door after the horse has been stolen. The way to keep reserve bank resources in reserve is to discourage their use when expansion is under way. The country should expect to confine itself normally to the amount of credit which the local banks are able to supply, using the reserve banks to give the degree of elasticity which the seasonal fluctuations require. No member bank should be a permanent borrower of its reserve bank. There is no reason to doubt that on this basis the industries can have all the banking accommodations necessary to enable them to operate at capacity.

Disadvantages of Price Advances

It is natural to want a boom, with rising prices and paper profits, but any one who will read the excerpts from British bank speeches given elsewhere and note the satisfaction expressed over the growth of British exports and the approach of the pound sterling to the dollar basis, must be impressed that prices in this country are already high enough for a healthy state of export business. Every economic authority in England, and for that matter in Europe, attributes the rise of the pound sterling in terms of the dollar to the depreciation of the latter—in other words, to high prices in the United States as compared with British prices, and the consequent gain of British trade.

If, for instance, Mr. McKenna is right as to the influence of our increasing gold reserves, and we think he is, the effect of sending us the South African gold production to apply on the British debt will be to raise our price level above England's and turn back to her the foreign trade which we have gained in recent years. It certainly will do so if we use our increasing stock of gold as the basis of credit expansion.

Money Rates

Time money in New York is at 5 to 5½ per cent. Offerings of commercial paper are increasing, and the prospect is for a good demand for money as Spring business develops. The lowest rate for call money in February was 4 per cent and since the middle of the month the renewal rate has been 5 or higher.

Acceptances have been unsettled a little by the rise of the reserve bank rate, but still are selling on a 4 per cent basis.

The Foreign Situation

There has been little apparent change in the Ruhr stiuation in the past month. The French have strengthened their military position, but it is not yet clear what military control will bring. The Germans believe that the French aim at permanent annexation of the territory. The French deny this but say they will not retire until they have obtained satisfaction for their claims against Germany. It is conceivable that this might come to mean the same thing, although not said with that intent. The longer the French stay in the Ruhr, the less disposed they will naturally be to retire without achieving what they went in for. If they are convinced that Germany could pay if disposed to, and refuses only from a stubborn determination to pay nothing, they are likely to match their own determination against it. It is only as the minds of men meet that any compromise or settlement of a disagreement is possible, and as yet there are no signs of such a meeting.

Nevertheless, it must be assumed that the Germans would be willing to agree to very considerable payments for the sake of having a settlement of the whole controversy. and that the French desire a settlement that will command the approval of world opinion and give them regular payments important enough to be of substantial assistance in their reconstruction work. How long it will take to bring public opinion in the two countries near enough together to make a settlement practicable remains to be seen.

British Debt Settlement

The Congress has passed the act approving of the British debt settlement as recommended by the Refunding Commission, by very large majorities in both Houses, and as the British Ministry has accepted it and no further legislation is required, the settlement is virtually completed.

We expressed the opinion last month that the settlement is as favorable as the United States could well desire to have it. If we were to raise any question about it at all it would be as to the desirability of having payments begin while the exchanges are still in an unsettled condition, because the influence of the payments must be to keep them unsettled. The exchanges between the United States and most of the other countries are in the position known as "favorable" to this country; that is to say, the dollar rates above the other currencies in valuation. This is favorable for buying, or importing purposes, but not for selling, or exporting, purposes. Bills are pending before the Congress, with important support in the West, for large appropriations out of the national treasury for the purpose of making loans to foreign governments to enable them to buy American farm products. The argument is that high exchange rates are making it difficult for foreign countries to buy here. Evidently there would be something incongruous in our lending to foreign countries with one hand and collecting from them with the other. An obligation upon Great Britain or any other country to make debt payments at this time means that such country or countries must enter the exchange markets, at a time when as yet there is not exchange enough to go around and compete with people who are wanting exchange for other purposes.

This undoubtedly is the reason for the provision in the settlement which gives Great Britain the option of postponing all payments upon the principal for three years, and one-half of the payments of interest for five years. It gives a degree of flexibility to the arrangement, and presumably is as far as the Refunding Commission felt warranted in asking for modifications of the Refunding act.

Any of the outstanding obligations of the United States Government will be accepted at their face value in the British payments. The effect of this will be to cause the payments to take that form so long as such obligations can be purchased in the markets below par, and it will also constitute an influence for bringing them to par. Since all the outstanding obligations of the Government are bearing higher interest rates than the British bonds bear in the first period, there is gain to this Government in the arrangement. Moreover, the original legislation by which the foreign loans were authorized and the money raised clearly contemplated that payments upon the foreign debt should be applied upon our domestic debt.

Foreign Trade and Exchange

The manner in which British exchange has been creeping upward over the last two years, and especially the gains made in the past year, notwithstanding the payment of $100,000,000 to the United States on account of the principal debt and a further payment last Spring on the silver account, has afforded a problem not readily explained. Unquestionably the explanation is to be found in the changing positions of the United States and Great Britain in world trade. It is commonly stated as the result of different price-levels in the two countries, but that does not of itself tell just how the difference in price-levels affects the exchanges. It does so by affecting trade. During the war and the boom years the price-level in the United States was below the price-level in England, but during the past year the situation has been reversed. The result is that in the eleven months of 1922 for which we have foreign trade statistics the balance of trade in favor of this country was only $669,213,000, which is getting back to about the basis of pre-war years. In 1921 it was $1,976,097,000, and in 1920 it was $2,949,534,000. On the other hand, the British situation has been as steadily improving. This subject is touched upon by the British bankers in the addresses from which quotations are made elsewhere.

The quotations for francs in the opening days of January were from 7.25 to 7.40 cents, and went off slightly when the council of premiers failed to reach an agreement. Following the advance into the Ruhr they lost until on January 31 they touched 5.77 cents. Since then they have recovered somewhat, and have been comparatively steady at about 6.10 to 6.15. The news as to French finances is generally encouraging. The revenues in January showed a gain of about 12 per cent over those of January, 1922.

German marks have been fluctuating wildly, falling to about 50,000 to the dollar, and since recovering to about 23,000 to the dollar. The printing of more of them goes on at an increasing pace.

Canadian exchange, which for several years was at a discount as compared with the United States dollar ranging up to 18 per cent, and last Fall went to premium which caused the movement of about $15,000,000 of gold from this country, is again below the parity, to the extent of 1¾ to 2 per cent. The rally last Fall was due to the crop movement and loan flotations in this country. In the present state of trade and the present customs tariff exchange conditions are against Canada, and it is important to note that they are also against exports from this country to Canada.

The Bond Market

The bond market during the past month has been strong, and this strength has been due in part to the widespread distribution of recent issues. The offering last month of $100,000,000 Anaconda Copper Mining Company 6 per cent Bonds enlisted the interest of over nine hundred and fifteen dealers representing every State, and a few days later the same list of dealers participated in $50,000,000 7 per cent Convertibles. During the month $20,000,000 Sinclair Crude Oil Purchasing Company 6 per cent Notes were offered and over five hundred dealers participated in this business. The syndicate managers in making their allotments on this issue found that over ninety per cent of the subscriptions which dealers had entered were for $25,000 or under. These dealers, of course, in turn split up their allotments in very much smaller pieces and it is safe to say that the average sale of the notes was something under $2,000 per customer, which would result in something over 10,000 sales. It is this widespread distribution and the breaking up of large issues into very small pieces which is giving the secondary market its strength. Anaconda 6s were originally offered at 96 and they are now selling at 98-98½, while the 7s which were offered at par are selling at 104-104½.

The breadth of the market is also illustrated by the varied character of the offerings which have appeared from day to day. One of the morning dailies recently carried advertisements on one morning of the following new issues:

$2,000,000	Island Warehouse Corporation First Mortgage 6 per cent Twenty-year Bonds, to yield 6.20 per cent.
2,500,000	Exchange Place Building First Mortgage 6 per cent Bonds, to yield 6 per cent.
750,000	Cushman's Sons, Inc., 7 per cent Preferred Stock.
5,600,000	Western Pacific R. R. 5¼ per cent Equipments, to yield 5⅛ per cent.
25,000	shares Checker Cab Manufacturing Company Participating Stock.
150,000	shares Independent Oil and Gas Common Stock.
13,447,000	Illinois Central Refunding 5 per cent Bonds, to yield about 5.05 per cent.
6,000,000	State of Illinois 4 per cent Highway Bonds, to yield about 4.05 per cent.

This is assuredly a wide range of securities. The first company leases flour mills to the Pillsbury Company of Minneapolis. The Exchange Place Building is one of the popular office buildings in the financial district of New York City occupied almost entirely by banking firms. Cushman's Sons, Inc., was organized in 1914 to acquire several long established baking companies and operates twenty-four retail bakeries in New York City. The Checker Cab Company manufactures taxi cabs for sale throughout the country and the Independent Oil and Gas Company operates in the mid-con-

tinent field. Two equipments and a municipal issue completed the wide variety of securities which were offered for the investor's consideration on this particular day.

In addition to the large number of dealers who have developed sales organizations during the last few years, the banks throughout the country are developing bond departments and recommending investment securities to their depositors.

Foreign Bonds

The market on foreign government bonds has shown some interesting advances during the past few weeks, the French issues in particular recovering the losses which were suffered at the beginning of the Ruhr invasion. The first large issue of foreign governments offered in this market in recent weeks was $25,000,000 Dutch East Indies Thirty-year 5½s at 88 and interest, to yield 6.40 per cent. The issue was subscribed in one day and this would indicate that the American investor is still very much interested in foreign government bonds. During 1922 there were forty foreign issues of one million dollars or over distributed by public offerings in this country, the total par value reaching approximately $520,000,000. This makes an interesting comparison with a recent report in the London Economist showing a total of £130,000,000 of securities of British Possessions and foreign countries placed in England during 1922.

Liberty Bonds

At the opening of the month, the market on Liberty Bonds was unsettled but strengthened when it was announced that Great Britain had accepted the recommendations of the American Debt Funding Commission in connection with the funding of their debt to the United States which amounts approximately to $4,704,000,000. It will be recalled that Great Britain may be in the market annually for somewhere between $150,000,000 and $175,000,000 Liberty Bonds as payment on account of the debt may be made in United States Government Bonds issued since April 6, 1917. Toward the close of the month the Liberty market eased off somewhat on the announcement that the Federal Reserve rate had been increased from 4 per cent to 4½ per cent.

Municipal Bonds

The municipal market continued strong throughout the month, some new high levels being recorded. The City of Philadelphia sold $8,000,000 4 per cent Bonds, due 1953, which were taken on a 3.88 per cent basis. Some of the larger municipal issues of the month included:

$5,000,000	State of Oregon 4 per cent and 4¼ per cent Bonds, to yield from 4.15 to 4.30 per cent.
5,000,000	State of West Virginia 4 per cent and 4½ per cent bonds, at an average price of 99½ and interest.
4,721,000	Cleveland, Ohio, 4½ per cent and 4¾ per cent Bonds, to yield from 4.10 per cent to 4.25 per cent.

Several issues of 5 per cent Canadian Bonds were offered in the American market at a discount from par. The larger issues included:

$13,000,000	Montreal 5 per cent Bonds.
1,872,000	Quebec 5 per cent Bonds.
725,000	Vancouver 5 per cent Bonds.
673,000	London 5 per cent Bonds.

The outstanding railroad, industrial and public utility issues without repeating the ones named above, were:

$20,000,000	Fisher Body 6 per cent Notes, at prices to yield from 5.50 per cent to 6.25 per cent.
10,000,000	Pacific Gas and Electric 5 per cent Bonds, to yield 5.62 per cent.
10,000,000	Price Bros. & Company Ltd. 1st Mortgage 6s, to yield about 6.12 per cent.
9,000,000	St. Maurice Power Company Ltd. 1st Mortgage 6½s, to yield 6.55 per cent.
4,500,000	Louisville and Nashville Equipments, to yield 5 per cent.
4,500,000	Northern Pacific 4½ per cent Equipments, to yield 5 per cent.

The average price of forty standard bonds as listed by the Wall Street Journal was 87.95 on February 24 compared with 88.10 on January 24 and 86.28 on February 24, 1922.

Fluctuations in the Cost of Money

Last month an interesting piece of financing was accomplished by the Illinois Central Railroad Company, which sold $13,447,000 of its Refunding Mortgage bonds. The mortgage under which these bonds were issued is dated Nov. 1, 1908, and by its terms interest is limited to a rate not exceeding 4 per cent per annum. That was the going rate when the first bonds under the mortgage were issued, but the sale of the bonds bearing a 4 per cent coupon at this time would have necessitated a discount of possibly 20 per cent. An expedient was therefore adopted which had been employed once before in railroad financing and several times in public utility financing.

The Illinois Central agrees to attach a 5 per cent coupon to this issue of refunding mortgage bonds, interest at the rate of 4 per cent being secured by the refunding mortgage, while the additional 1 per cent interest is secured, under a supplemental indenture, by a second lien on the property, subject to the refunding mortgage. The bonds thus set up were promptly sold at 99.

The other instance in railway financing of the same expedient occurred in January, 1922, when the Southern Railway sold $30,000,000 of its Development & General Mortgage bonds. That mortgage was created in 1906 and similarly limited the rate of interest to 4 per cent. To sell its 4 per cent bonds in the 1922 market would have necessitated a dis-

count of about 40 per cent, which was prohibitive. The Southern Railway therefore affixed to the bonds a 6½ per cent coupon, 4 per cent of which was secured under the Development & General Mortgage, and 2½ per cent under a supplemental indenture, which differs from the Illinois Central's plan in that the additional interest is not secured by mortgage on the property. The company covenants, however, that in case a new mortgage is placed on the property this interest obligation will be equally and ratably secured by such new mortgage.

Financial history contains numerous instances of the difficulty of predicting the movement of the interest rate. So far-sighted a man as the late James J. Hill erred in limiting the rate on the Refunding Mortgage of the Great Northern to 5 per cent. This mortgage was executed in 1911 and was intended to bring about the final standardization of the company's securities. In 1912, when Mr. Hill retired from the management of the property, he analyzed the purposes of this mortgage as follows:

"This issue, of $600,000,000 in all, stands to the big systems of today as the $50,000,000 issue of consolidated bonds did to the small system of twenty-eight years before. It creates a financial clearing house through which its several outstanding securities may be converted into one of standard form and value; and it forms in addition a reservoir of authorized credit so carefully guarded by the conditions of the mortgage that it cannot be abused or dissipated, yet so ample that it will supply all needs for probably fifty years to come." And yet only nine years later this mortgage, because of the interest rate limitation, was found to be wholly inadequate to provide for the maturity of the Chicago, Burlington & Quincy Collateral bonds for which the Great Northern was jointly liable. A new blanket mortgage had to be created and the company must pay 7 per cent interest on $115,000,000 for fifteen years. The Northern Pacific, the other joint obligor, was not hampered by a like restriction in its Refunding Mortgage and its burden arising from the refunding of the Burlington Joint bonds is materially easier.

During the past few years those railroads which have had occasion to creat new refunding mortgages have been careful to avoid too narrow restrictions. Not only is the interest rate on future issues of bonds left to the determination of the boards of directors at the time the issue is made, but the aggregate amount of bonds is limited only by a fixed relationship the amount of stock outstanding. The usual practice restricting the amount is that the bonds shall not be more than three times the capital stock.

London Bank Reports

The month of January in England as in the United States is the season for the yearly bank meetings, and the addresses made by the bank officials to the stockholders usually take a wide range over the general state of industry, trade and finance.

One of the most important figures among London bankers is the Hon. Reginald McKenna, one-time Chancellor of the Exchequer, an economist of recognized authority, now Chairman of the Board of the London Joint City and Midland Bank, the largest bank in the British Isles. He has given in this year's address an interesting account of the state of British trade and also a discussion of inflation and deflation, the latter being of special interest on this side of the Atlantic for its references to banking policy in this country.

After emphasizing the importance of foreign trade to Great Britain by saying that before the war, at a safe estimate, one-third of the labor of the British people, whether in production, transport or clerical work was employed in it, he goes on to show the demoralization which affected this trade in 1922 as follows:

> If we begin by comparing our present foreign trade with that of the last pre-war year we find that the values of imports and exports for the twelve months ending September, 1922, the latest date for which we have the figures in detail, show a considerable increase over those of 1913. But if we are to have a true standard of comparison we must make proper allowance for the reduced value of money, and in the few figures I shall quote I have taken the values of 1922 on the basis of commodity prices current in 1913. On this basis retained imports show a decline of 19 per cent and exports of British production of 34 per cent. Let us now look a little more closely at the drop in our exports and examine where our foreign market has been curtailed. Dividing the countries which take our goods into three main categories, in the first we have the countries of Central and Eastern Europe, our exports to which have declined 62 per cent. The second group includes all other foreign countries, which took 30 per cent less of our products in 1922 than in 1913; and the third group consists of the British Empire overseas, to which our exports fell 29 per cent.

While attributing this decline of exports in large part to conditions existing in foreign countries which British policies could not control, he proceeds to hold the government's financial policy in converting the floating debt, which was largely in the hands of the banks, into long-term bonds in the hands of investors, as in part responsible. He pronounces this a policy of deflation by reason of the fact that it reduced bank deposits, and thinks it tended to curtail industry by reducing the amount of bank funds available for business.

Deflation in the United States

Upon that part of his argument we shall not comment, but we are disposed to take exception to the illustrations which he draws from the United States. He speaks of the banking authorities in this country having followed a

deflationary policy in 1919 and 1920, reversing it in the late summer of 1921, and says:

> Since the late summer of 1921, when British and American policy diverged, bank deposits in the United States have materially increased, prices have gradually risen, and the unemployed, who were then numbered by the millions, have been steadily absorbed. During the same period the dollar has depreciated in relation to sterling more or less continuously, until to-day the two currencies stand to each other in a relation not far removed from parity.

Mr. McKenna apparently has been misled by the criticisms directed against the Federal Reserve authorities because they offered resistance to the further increase of bank loans in the Fall of 1919 and the Spring of 1920. There was no intention on the part of the reserve authorities to force deflation either in bank loans or prices, but they recognized the necessity of checking the wild inflation of both that was then in progress. The Federal Reserve act fixes a minimum percentage of reserves to liabilities, and this minimum had been approached when the authorities, cautiously and with every desire to avoid disturbing business, attempted to check the further expansion of loans and deposits. It is generally recognized now that they delayed too long and were over-cautious in advancing the discount rate. The initial advance was made November 1, 1919, but it was not until June, 1, 1920, that the rate was raised to 7 per cent, and it was never raised higher than that. The loans of both member banks and reserve banks continued to increase until about the 1st of November following, showing that no forced deflation resulted from the discount policy. The first symptoms of price reaction, resulting from a falling-off of trade, occurred in the Spring of 1920, before the discount rate reached 7 per cent. The heavy cancellations in trade occurred in May, 1920.

An Unavoidable Policy

The policy of the reserve authorities in advancing the discount rate was unavoidable if any attempt was to be made to hold inflation under control. It is by no means clear that it had anything to do with the break of prices, but if so the break was occasioned not by a reduction of bank loans but simply by refusal to expand them rapidly enough to maintain the pace of inflation. It is true, of course, that a rising price movement which is due to inflation is likely to come to end unless sustained by inflation, and that at such a time if prices are not steadily pushed higher they are bound to decline. Mr. McKenna, however, is not an inflationist, and would not maintain that the banking authorities were under obligations to keep prices rising.

No change of banking policy has been responsible for the increase of deposits since 1921. Deposits fell off with the fall of prices and slackening of industry, for obvious reasons. When the fall of prices had run its length, and as usual had gone to the other extreme, a gradual recovery set in, and the industries began to revive. Loans began to increase, not because banking policy was changed, but because the demand for credit increased as business revived, and this has continued to the present time. The recent advance in the discount rate is intended to suggest that business is now about as active as it can be without danger of inflation. It is not an attempt at deflation, nor did the advance in 1919 have that significance.

The Rise of Sterling Exchange

One of the most interesting features of Mr. McKenna's address is that dealing with the rise of sterling exchange in terms of the dollar. He says in the course of his argument against the deflation which results from the conversion of the floating debt into long term indebtedness:

> It is admitted that deflation in this country tends to improve the value of sterling. But does it in the actual circumstances of today do more than accelerate our approach to parity? Would our exchange not rise to par even if there were no deflationary efforts on our part and we were spared all the evils of trade depression and unemployment which attend such efforts? I think it would, unless financial policy were again reversed in America. I think that in existing conditions the depreciation of the dollar is bound to continue. At present the United States is the only great market for gold. The bulk of the world's annual output is sold to that country and, as the amount is greatly in excess of the normal currency and credit requirements, the effect of the over-supply is to force down the value of gold. Depreciation of gold means a rise in prices in the United States and a fall in the value of the dollar measured in sterling. Even if prices rise here, as they will under improving trade, they will not rise as fast as they must in America under the influence of an excessive gold supply, and, if there be no deflation in either country, sterling will slowly appreciate until it finally reaches par.

If Mr. McKenna is right upon this point, and we think he is, the effect of sending the product of the South African gold mines to us by way of payments upon the British debt will be to raise our price level above England's and turn back to her the foreign trade which we have gained in recent years. It certainly will do so if we use increasing gold reserves as the basis of credit expansion.

London County, Westminster Paris Bank

Dr. Walter Leaf, Chairman of the Board of the above-named institution, a scholar and economist of the first rank, delivered a very informing address, from which we would be glad to make larger extracts than space will permit. He said in part:

> If we seek for a single word which may describe the past year, we may perhaps say that 1922 has been for this country a year of stabilization. Fiscally, we have been engaged in stabilizing the pound. This has been effected by just balancing the Budget, and leaving nothing over for the payment of debt.

How this has worked out in practice is strikingly shown in figures which have been put before me on the highest authority. It appears from these that the capital repayments during the past year, mainly, of course, in War Bonds falling due, have amounted to £99,700,000, while the issue of Treasury Bonds during the same period has been £99,500,000. It would hardly be possible to contrive a closer approximation, a better example of exact stabilization. We have thus avoided adding to the suffering involved in deflation, and on the other hand we have escaped the far greater evils which accompany inflation, ills of which Germany is at present giving us a terrible example. The result of this policy is that prices have during 1922 been remarkably steady—in other words, the purchasing power of the pound has been stabilized. And at the same time we have seen the dollar decreasing in purchasing power in the United States; and the outcome is that the pound and dollar have come close together, and to all appearances it will not be long before they meet at the gold parity.

The fall, I take it, represents the decrease in the value of gold owing to its exclusion from use as a circulating medium, and is likely to be of a permanent nature. On this point, however, I need not dwell here. I will only take the opportunity to repeat what I have had occasion to point out elsewhere—that the recovery of the pound in terms of the dollar, reckoned from the lowest point, means a diminution of our debt to the United States of over 432½ million pounds. This in itself is a justification of the policy pursued by our Government and an emphatic warning against any siren voices which may lure us to depart from the strict road of fiscal honesty in order to gain a momentary stimulus to trade at the expense of a subsequent deadly reaction.

Balance of Trade

This approach of the pound to the par of exchange means in the last resort that our excess of imports over exports must have been more than balanced by invisible exports, and that we must have had during the year a favourable balance of at least the amount, 25 millions, which we have provided towards the repayment of our debt to the United States—a repayment which does not, I take it, represent an actual diminution in our total indebtedness, but has been rather a conversion of external into internal debt. The facility with which this large amount in dollars was bought, without in any way turning the exchange against us, was a matter of common remark. It was doubtless an effect of the coal strike in the United States, which stimulated our exports. But there must be deeper causes than this at work; and I observe that Mr. Hoover, looking at the question from the other side, has forecast for the United States the near approach of the point at which their imports will balance their exports, and the gold accumulated in the United States Treasury will begin once more to flow outwards. That is in itself a forecast of improvement in our own export trade; and the course of the last year has done much to strengthen the grounds on which this sorely needed improvement may be expected to realize itself in the not distant future.

In other words, the efforts which have been made on the part of masters and men alike to reduce the cost of production are already bearing fruit, and through reduced prices we are on the way to recover the position which we held in international trade before the war.

Unemployment

But we must not talk about good times while we still have unemployment on its present scale. It has indeed been much reduced during the year; but there are still nearly a million and a half of men crying out for work Now this dark cloud of unemployment is essentially a world phenomenon—at all events a phenomenon which, in one form or another, reappears in all the countries which were deeply involved in the war and in those which are most closely dependent on them. The United States, though they suffered comparatively little from the war, have had their experience of it; but in the position of comparative independence which their vast internal resources give them, they appear already to have passed through it successfully, and have given us good guidance in the path which we must follow—that of hard work and making the most of such opportunities as we have. The plain fact is that we are all much poorer after the gigantic waste of the war—how can it be otherwise?—and are feeling the pinch of poverty. Some countries are absolutely ruined: Russia, for instance, is economically moribund, and has ceased to produce the large contribution which she used to make to the subsistence of the human race. Germany, if I am not mistaken, is well on the road to ruin, and is probably not producing enough for her own needs. Turkey and the Near East are now out of the running. And in many other countries in Central Europe production has fallen to a low ebb. The total population of Europe has been diminished by the war, but not nearly so greatly reduced as its productive power. There is less being produced to-day per head, and thus there is less to go round. The standard of living has been lowered, and we are all feeling poorer.

Prospects of Revival

But in spite of all this, there are definite signs of a strong trade revival, which is already doing something to diminish unemployment, and seems likely before long to do a great deal more. You will have seen the encouraging reports of recovery in the papers, and these are fully confirmed by the returns which we receive from our own managers in the different industrial centers. Perhaps the trade which is suffering most is cotton manufacture in its various stages; there the weakness of the demand from India and China stands in the way of active business. But in the iron trade and its various great branches, from the blast furnace to the steamship and the railway locomotive, we hear on every hand of renewed activity. The coal trade is very active, and exports are growing.

In the textile industries, though cotton is depressed, wool is doing well, and the hosiery trade has fully maintained the activity which was observable twelve months ago. The heavy chemical industry has made steady progress during 1922, home trade being assisted by reductions in railway rates, and lower production costs. With the exception of South America, where the exchange has been adverse, exports have expanded. And, generally speaking, there is a tone of confidence for the future from many quarters. Blast furnaces are being blown in, works reopened and even extended, and new ships placed on order. It will be for the coming year to show if these hopes are to be translated into profits. For the moment at least they are mainly hopes, and have not affected our balance-sheet in the place where one looks with anxiety for trade revival—our advances to customers. These have been very steady throughout the year, but at a point below what we should like to see touched. That will no doubt be reached when the new produce of extended industry comes forward to be financed for marketing.

Barclay's Bank

Mr. F. C. Goodenough, Chairman of Barclay's, discussed a variety of subjects interesting on this side of the water as well as on the other.

Speaking of business conditions he says there is a general feeling that "the country has reached the end of what has been a very bad time, and is entering upon a period of slow, but as we may hope, steady improvement." He adds:

The labour position has improved, but the housing problem has not yet been solved and until some scheme can be devised which will make it possible for house building to be undertaken upon an economic basis, there seems to be little prospect of improvement in that important industry. In the meantime, the demand for small houses continues to be very great. The output of coal has increased to 252 million tons in 1922 as compared with 163 million tons for 1921, the year of the coal dispute, and 229 million tons in 1920, and prices have been steady and satisfactory.

The prices for iron and steel are now at a level when business can be secured in competition with other countries, and production has expanded. There is a great potential demand for iron and steel.

Wool has been good, and prices have improved.

The cotton textile industry is still in an unsatisfactory condition, and though the volume of export trade shows considerable improvement, the level of prices and the high cost of raw cotton do not as yet allow of profits.

He touches upon the Fordney act as follows:

Apart from Reparations, perhaps the most important feature in the outlook for our trade is the Fordney Tariff Act lately passed by the American Legislature, which came into operation on September 21. This Act imposes upon foreign manufactured goods entering America such duties as seem bound to have a far-reaching effect upon the trade of this country, and may even lead to the diversion of our trade into new channels. It will also serve to raise prices in America and to hamper American trade. The duties amount in several cases to as much as 60 per cent ad valorem.

The Act, if it remains in force, will make it more difficult even than would otherwise be the case, for this country to discharge its debt to America, even though there should ultimately be some reduction in the rate of interest and extension of the period for repayment, as a result of the visit to America of the Chancellor of the Exchequer which has just taken place.

Besides having to provide payment for our imports from America, our debt to her is a great burden, more especially as it consists entirely of unproductive debt, incurred solely for the purposes of the War. Yet, as the Chancellor has definitely stated—and in this he will have the universal approval of the people of this country—we shall discharge the debt in full, even though it was incurred in a common cause, and whatever may be the cost to ourselves.

The effect of the Fordney tariff, however, must be to compel us to seek new sources of supply of foodstuffs and raw materials and to develop markets in other parts of the World, for our trade, especially in India, with its great population, and in the East, and in the Dominions and Colonies of the British Empire, who in their turn can send to America their raw materials and other merchandise which America cannot produce for herself.

In this way, we shall still use the products of our industry to discharge our obligations to America, even although America will no longer accept our manufactures direct upon reasonable terms, owing to the operation of the Fordney Act. Moreover, in this way we shall reap the fruit of the policy of Empire development, upon which so much of British resource and enterprise has been spent in the past. It is a reassuring prospect in the face of what could not otherwise fail to be a paralysing blow. It is a prospect worthy of our energies and our ambitions, and of the great traditions of our race. It is a policy of consolidation, but coupled with expansion and progress. In the development of this great policy, we shall lighten and relieve the losses that we have suffered in the War and in its aftermath. It will afford great opportunities for employment and for advancement, both for men and for women who are ready to take advantage of them. It will afford our people an outlet to satisfy the natural desire for progress and for betterment, which is perhaps one of the fundamental causes of much of the unrest of the present time.

It is pertinent to this discussion of the Fordney act to say that while it is yet too early to draw a final conclusion as to its operations, the increase of customs receipts under it does not indicate much, if any, falling off of dutiable imports. It is possible that Mr. Goodenough's pessimistic forebodings will not be realized.

He discusses the resumption of lending operations in London to the Dominions and foreign countries, and touches upon the much-vexed subjects as restrictions upon the expenditure of such loans as follows:

The floating of Loans by the British Dominions and by India, as well as by Foreign Governments and Corporations, has been an important factor during the year. The total amount of new issues of this description on the London Market has exceeded £100 million. Whereas Foreign Loans were discouraged up to a year ago it is now recognized that all restrictions should be removed. The interest on these Loans should materially assist in increasing our Invisible Exports.

In making these Loans, we, of course, hope that they will result in direct orders to this country, but even if this is not always practicable, the Loans have the effect of credits being opened in London in favor of the borrowers, and through the opening of these credits, this country benefits, directly or indirectly, in many ways. For example, if a Loan should be granted to Norway, and Norway should prefer, instead of spending the proceeds of the Loan in the purchase of goods from this country, to use the credit for financing her purchase of Wheat from the Argentine, it is possible that the latter country, having the credit transferred for her benefit, might use it for the purchase of steel rails from Middlesbrough. Alternatively, she might use it to finance her purchase of goods from America, in which case America would then have the credit in London, and might use it for financing cotton from Egypt to Boston, or in a variety of other ways. It would always remain a credit in London, until discharged by the shipment of goods or of gold, or by repayment in some way or another, and meanwhile, it brings profit to this country in various ways. The danger of too many credits being opened here is held in check, through the effect upon the Foreign Exchanges, which, in the event of too many Loans being granted, would make credits too expensive for the borrower and therefore of no practical utility.

From this you will see that it is important that there should be no hard and fast conditions that the actual proceeds of the Loan must be spent here.

Lloyd's Bank

Mr. J. Beaumont Pease, Chairman of Lloyds, which ranks second in volume of business among British banks, discussing the general world situation referred to the Ruhr movement as follows:

Undoubtedly signs of industrial improvement were discernible towards the end of the year, but trade is a delicate and sensitive plant, and cannot thrive in an atmosphere of unrest and uncertainty, and in any case the continued loss of such a large portion of our old markets would have prevented anything like a return to our full normal prosperity. It was all the more disappointing, therefore, to have our hopes, slight perhaps as they were, of a revival of trade seriously damped by the recrudescence of international disputes and difficulties. The actual loss of Central European and Russian markets, judged by figures alone, is not the most serious point. Russia, Germany, and Austria between them only took 14.8 per cent of our total exports in 1913. Our trade is with the Empire and the whole world, but nowhere can trade be healthily flourishing if the general political and economic situation is uncertain. It is, therefore, bitterly disappointing, just when things appeared to be on the mend, that the unsolved problem of German reparations reached a stage more critical and more full of danger than it had previously done. We in this country can sympathize with France in her disappointment at the fruitless result of conference after conference, and we can understand the elementary desire which has inspired her to adopt more active and aggressive measures. We both, presumably, have the same ends in view, a recovery from Germany of the maximum which can safely be extracted from her, a final solution to the problems arising from the war, and a period of peace when we can devote our whole minds and activities undisturbed to the rebuilding of our shattered fortunes. But there is a great cleavage of opinion between us

as to the methods best calculated to secure these ends, and the position is so desperately serious that it is impossible to take a merely scientific and detached view of it. As it is, we are waiting with unconcealed anxiety to see what will be the outcome of France's tremendous experiment, and whether her attempt, in modern conditions of international interdependence, to extract material wealth from her neighbor by force will be crowned with success commensurate with the cost involved, or whether her belief in this method will be written down by history as the Great Illusion. Even if her objects were political rather than economic, which she has denied, it is difficult to believe that her security can be best attained in the way she has chosen when we consider the enormous risks of future disturbance which are involved.

The Burden of Taxation

He touched upon the subject of unemployment doles and taxation as follows:

The indications of improvement in trade which I have described as discernible towards the end of the year were all the more welcome as the country had had two bad years to face, and at the same time has been subjected to abnormally high taxation. I do not know whether the relative proportion between those who contribute the taxes and those who are benefited directly by them is generally known. A leader which appeared in "The Times" about a month ago stated that during last year, with its lamentable extent of unemployment, more than half the nation were receiving help in one form or another from public funds, and that the other portion were bearing the burden. In 1922 the Poor Law relief reached the highest point ever touched in the social history of the country, and under our present system less than two and a half millions of people pay more than one-half of the total revenue raised by the State. I do not mention these figures with the object of denying the necessity, which there undoubtedly is, for those who have possessions to contribute to the welfare of their less fortunate fellows, but I want to draw attention to the fact that we are gradually and quietly becoming more and more Socialistic in our actions, whatever we may be in our theories, and that a point may easily arise at some period when the individuals who at present provide the funds can no longer do so.

The Prime Minister a short while ago pointed out, in his conference with the unemployed in Glasgow, that the burden placed on the production of one ton of steel by rates and taxes (exclusive of income-tax) before the war was half a crown; today it is a guinea. It does not require much imagination to realize that, if the burden were lightened, the sales would improve and unemployment be reduced. Surely, therefore, it is the manifest duty of every one, employers and employed, the Government and the public, traders and bankers, to do all that is possible in harmony and cooperation, with a wide sympathy towards the difficulties and necessities of their neighbors, and with a wise appreciation of economic facts, to restore our normal prosperity.

The National Provincial and Union Bank of England

Sir Harry Goschen, Chairman of this well-known institution, said, in part:

In spite of the depressed state of trade, I am glad to see there has been continued progress in the rehabilitation of our national finances. During the year that has passed the Chancellor of the Exchequer has been again able to effect repayments of our external debt amounting to £49,000,000, and during the same period £427,970,000 of maturing or short-dated securities have been converted into longer-dated stocks and bonds, with an annual saving of interest to the country of £892,000.

We are able to record again this year an improvement in the position of our currency. At the end of 1921 we held bullion to the extent of 34.9 per cent against the Bank of England and currency notes available for circulation, and on the same basis of calculation this percentage of bullion has now risen to 37.62.

Last year's Board of Trade returns also show a reduction in the adverse trade balance, which at the end of 1922 amounted to only 180 millions, against 277 millions in 1921, an improvement of 97 millions. It is only right to add that this reduction is chiefly due to the fact that our imports declined by 83 millions rather than to what I should have preferred to see, an increase in our exports, which are only 14 millions higher as compared with the previous year's figures, but notwithstanding this qualification, the result shows a further move in the right direction—and it must be remembered these figures reflect lower values.

The Board of Trade index number for wholesale prices for December stood at 155.3 as compared with 167.9 in the same month in 1921, and the cost-of-living index figure stood at 178, against 199 in the previous year.

The American Debt

The most important result of yesterday's Cabinet Council, as reported in this morning's Press, stands out as a landmark in our financial progress. Some people may think the rate of interest which we understand the American Commissioners are prepared to recommend for the funding of our debt to the United States is somewhat more onerous than might have been expected, when all the circumstances under which the debt was incurred and the purposes for which it was required are taken into consideration, but it is an honorable settlement for both sides, and I feel we should offer the Government our sincere congratulations for the courage with which they faced the situation and the decision they have come to.

Our thanks are due to the Chancellor of the Exchequer and the Governor of the Bank of England for the strenuous efforts they made at Washington to arrive at an agreement, and we also should appreciate the conciliatory and friendly spirit in which their suggestions were met by the President of the United States and the American Commissioners.

It would, to my mind, be unwise to embarrass the existing negotiations (for we must remember the terms of the agreement are subject to ratification by Congress) by entering into any discussion here as to what the terms of the arrangement might or might not have been. In my opinion, the definite settlement of our debt to America is of the highest importance, for I believe it will have far-reaching influence on the reorganization of the finances of the world, and, indeed, may inspire other nations to efforts of a similar nature.

British Industry

Reviewing the domestic industries, he said:

The cotton textile industry has not yet recovered from the accumulation of stocks both at home and abroad, and orders at profitable prices have been few and far between. I am afraid that further liquidation has still to be faced, and the high price of cotton and the keen competition from all parts of the world make business difficult, and leave but a small margin of profit, if any, to be divided among the manufacturer and merchant.

Our exports of cotton manufactures show an increase in volume ranging from 30 to 40 per cent over 1921, but, notwithstanding the high prices prevailing for American cotton, the increase in value of the whole of these exports is only about 4 per cent, which gives some indication of the trying times through which the industry has been passing.

In shipping there has been unparalleled depression during the year. A slight improvement, however, seems to be visible. Orders are forthcoming for new tonnage, and, at all events, this industry has retained its position in the world, as it is estimated that the amount of tonnage in hand in British yards is about equal to that now under construction by the rest of the world.

In the iron and steel trade it has also been a year of poor profits; but it is satisfactory to know that we have, possibly through exceptional circumstances, secured a lead in the total amount of our exports. Twelve years ago Germany had acquired that position from us, and only five years ago the United States of America stood at the head of the list. For the first eight months of 1922 our exports amounted to 2,060,000 tons, whilst the United States, during the same period, exported only 1,413,000 tons. From all quarters one hears of increased orders being placed.

After referring to the diminished demand for British goods in Europe he says:

The unfortunate condition in which the countries I have referred to find themselves has not only a direct but also an indirect influence on the demand for our goods. Many European States were large buyers of raw material, food, and other commodities, which China, Japan, South America, and other countries were prior to the war, accustomed to export to the Continent, and in view of the fact that these countries can no longer count to the same extent on the usual markets in Central Europe, their purchasing power has also diminished.

Position in India and China

India, always a good customer of this country, has hardly even yet digested the large shipments of goods made to her during the time of inflation. Political disturbances havé interfered with trade, and the diminished demand for her productions, which in pre-war days were largely shipped to the Continent, affects the purchasing power of all her people. These conditions account for the decreased demand for goods from our Indian customers. Besides this, every year a larger proportion of the coarser textile products is manufactured in the country itself, and new mills are constantly being established for this purpose. There are, however, I am glad to say, some signs of improvement in her economic conditions. Crop prospects are good, and there is a larger acreage of exportable products under cultivation. Indian cotton is in better demand and is again being exported in large quantities, so that with the more tranquil political and religious conditions that now obtain, we may anticipate a better demand for goods manufactured in this country.

In China trade is not good and orders are scarce; political unrest there also exercises a deterring influence. The prospect of increased duties and surcharges and the absence of the pre-war demand from Europe continue to affect unfavorably her purchasing capacity.

Improved South American Conditions

Conditions in South America—and particularly the Argentine—have somewhat improved, and the large shipments which were made to that country by British manufacturers during the period of inflation have, to a great extent, I believe, been absorbd.

May I add a word as to the importance of overseas customers to this country?

Owing to physical conditions, this country itself produces but a small percentage of the necessaries of life. The remainder has to be imported, and can only be paid for by the goods we manufacture and sell to countries abroad. During the past year we imported foodstuffs alone to the extent of £424,000,000 in excess of the small quantity of food which was exported. This vast sum of £424,000,000 had to be paid for by our exports and services. In order to secure buyers for our goods, and, therefore, the means to pay for the food we need, it is, of course, essential that our manufacturers are able to compete successfully with other countries. But, capable as manufacturers are in producing goods at suitable prices, buyers cannot be created. Buyers themselves must have goods to sell in exchange for what they purchase. Unless they produce and can find a market for their products they cannot buy; but I think I have already said sufficient in this direction to show that in the end it is largely to the customer abroad that we have to look for a restoration of normal trade conditions in this country.

Agricultural Depression

It is interesting to an American reader to note that every one of these addresses includes a special discussion of agricultural depression in Great Britain. Some of the statements sound as though they might have been made in the United States or Canada. Every one of the speakers was at considerable pains to show that the institution for which he was speaking was not neglectful of the farmer's claim for credit.

Mr. Goodenough recommended a reduction of taxation on agricultural land and a reduction of railway charges on farm products. Sir Herbert Hambling, of the same institution, discussed it very earnestly and at some length. He said:

I wish the Chairman had had more time to deal with the question of Agriculture. That today is a very burning question, and I cannot help thinking that unless the Government can do something, there is a very bad future for farmers and the agricultural interests in this country. At the present time, although, as the Chairman suggests, some relief in rating, some concession as regards freights, will do something, it will not do enough. The farmer today is in this position, that he cannot produce at a profit the corn [wheat] that he grows. He has not got down to an economic wage at the present time. The wages of the East Anglican farm laborers are now 25s. a week—25s. a week for a laborer and his wife, and perhaps three or four children. Think of that; yet even that wage is more than the farmer can afford to pay. The unfortunate laborer can hardly exist, and I cannot help thinking that the big fall that has taken place in the wholesale article has not been properly reflected in the retail article. I do not think you can buy as much as you should for your money. Something will have to be done for the farming industry, or they will as a body refuse to grow corn. Financially, they will pull through, but they will lay down their fields to permanent pasture, they will get rid of 50 per cent of their labor and of their horses, and this farm laboring population.

I hate to suggest anything like tariffs. Your Chairman has told you the effect of the Fordney tariff, but it is quite certain that if the foreign barley that came here were taxed to the extent of £1 per quarter, and if we could get wheat in, but not flour; if we could grind our own wheat, and we could get our own mills working; if we could get our offal as we should, at half the price, then we could grow corn and live, but at present the farmers are paying more for their offal than they can get for their wheat. I am sorry, ladies and gentlemen, to take up so much of your time, but my excuse is that I take an intense interest in agriculture, and I do hope something will be done so that we may still be something of a corn-growing country, and that we may still have sufficient corn in hand, so that, in the event of future trouble, we shall not be starved in a few weeks. The principle involved is not that of protection—it is a question of the defense of the realm.

Dr. Leaf in his speech said upon this subject:

There is one industry of which I wish in this connection to say a few words, the industry which is, in fact, the greatest in the country—namely, agriculture. That agriculture is not in a flourishing condition is unfortunately only too well known. But I sincerely hope that the conditions may not be so desperate as some would have us believe. We most heartily sympathize with farmers in the very heavy losses they have had to face in the drop in the value of stock of all sorts. But it must be borne in mind that this capital depreciation is to a great extent only a reaction from the great profits made by appreciation during the war; and I have heard it seriously questioned if the farmers are not, on the whole, better off, even after writing down their stocks, than they were before the war.

Another heavy burden from which many of them are suffering just now is that of the loans which they have incurred for the purchase of their farms. There was a great rush to buy at the very top of the market; the money was largely borrowed for the purpose, and the interest remains as permanent charge. Now I have noticed with some surprise a tendency on the part of persons claiming to represent the farmers to blame the banks in this respect. It has, of course, always been the privilege of the farmer to grumble; and so long as his complaints were directed against

his natural enemy the weather, no one would grudge him his privilege. But the banks really have some cause of complaint when they find themselves treated just as if they were so much weather. After all they can show some reason for their actions.

You are doubtless aware that a committee has been appointed to inquire into the grievances of agriculture, including the supposed grievances against the banks. To this committee we have been pleased to show the figures for which they asked. I cannot, of course, anticipate their report; but it would surprise me if they found that there was any justification in the grumbles of which I have spoken.

The Banks and Agriculture

One of the main complaints against us is, strangely enough, that we are pressing for repayment of the money advanced for the purchase of farms, regardless of the straits in which the farmers find themselves. Now if the complaint had been different—if it had been that by our extreme liberality in lending on very easy terms, we had lured the farmer into buying at the top of the market, perhaps there might be some ground for it. But the complaint is not of over-liberality, but of undue severity. To meet this I will give you some of the figures that we have supplied to the committee. * * *

The general conclusion which I draw from the information before me is that the farmers are having a bad time, but that the conditions are not in any way ruinous. The good hard-working farmer with up-to-date methods is able to make a living under present conditions, though he has to see a capital shrinkage which is more or less wiping out what he had accumulated in the good times of the war. The crisis with which he is faced is a serious one, but it is not worse than many which have been successfully surmounted in the past. The state of agriculture is indeed very similar to that which followed on the great Napoleonic wars of the last century.

Mr. Pease referred to the subject in part as follows:

Agriculture is still in a most critical and depressed condition, and I wish to make a special reference to it.
It is the oldest and greatest industry in the world. On it we depend literally for our daily bread, and to it is due all the sympathy and practical assistance possible in the difficult times through which it is passing. It is necessary to say this because in many letters to the press, in public speeches, and in a recent debate in the House of Commons it has been stated that bankers are not giving to farmers the financial aid which they ought to do.

The statement was made in the House of Commons a few months ago that "in the old days when they had little proprietary banks the banker knew every farmer and he lent him money till the bad times were over because he knew that the farmer was an honest man. They had got now a system of a different character." When an ex-Prime Minister and ex-Chancellor of the Exchequer commits himself to such a statement, so entirely erroneous and devoid of foundation, it is not to be wondered at that people of less importance, but of equal ignorance of the true facts, should write to the papers stating that "agriculture is suffering from the amalgamation of the big banks, and the position they are taking up in connection with the farming industry is that of practically affording no financial assistance to farmers."

In the face of the extraordinarily untrue statements I would like shortly to give you some definite facts. I have had the figures taken out, and they show that, as far as this bank is concerned, we are lending to 12,800 farmers sums aggregating £14,000,000, and I have no doubt that our banking neighbors have been similarly liberal. I would go farther than this and say that, if banks had been more liberal in the advances they made to farmers, at any rate for the purpose of purchasing their farms, there would have been a more legitimate ground for complaint, because farmers made these purchases—and in many cases were more or less compelled to do so, in order to avoid eviction—at prices very much higher than those of today.

Taxation of Business

We have given considerable space to discussion of the proposal to tax corporation surplus, dealing with the fallacies of the theory upon which such proposals are based. Such discussion at best is not as illuminating as a story from life, such as we are able to give below. The following is a copy of a part of a letter written by the President of a manufacturing company of moderate size operating in a Western State to a Congressman who is proposing to have the Government go back over the years 1917-1922, and re-tax all corporations upon any surplus earnings which they may have had left after paying the heavy taxes of those years, and which have not since been distributed as dividends. The unwisdom of attempting by law to force corporations to distribute their earnings in dividends annually hardly could be more graphically described. Suppressing names and personal references, the letter is as follows:

Dear Sir: I note that you have introduced a bill (H. R. ——) that if reported correctly to me will tax for the years 1917 to 1922 inclusive and thereafter all that portion of net income for any of such years of every corporation not distributed in the form of dividends in excess of certain credits and certain deductions that are allowed.
I feel it is worth my time to advise you how this will affect two corporations in which I have my all, and I assume that the very large body of corporations in the United States of moderate size will be effected the same as mine. Between 1917 and 1922 these corporations experienced some most remarkable vicissitudes. They made or appeared to have made in one or two years very large profits. For the balance of the years they made very moderate up to unbelievable losses, and the net worth of both of the corporations was considerably less January 1st, 1923, regardless of some very small dividends paid than on March 1st, 1913. In other words, between March 1st, 1913, and January 1st, 1923, they lost more money than they made. Each of these corporations is heavily in debt; one of them owing more money than it has of net worth, one owing less money than it has of net worth; but remember, both depending for their existence solely and only on the consideration of their creditors.
As I understand your proposition, because no dividends of any account were declared and I retained such money as was made in the years that we did make money in the business to fortify the credit of the corporations and to enable me to continue on through these corporations the business of producing and marketing lumber, I am now to be penalized by a tax on profits shown under the rules and regulations of the Treasury Department but which were not in truth and in fact ever made. As I understand it, because forsooth you want to land on an octopus or two my corporations are to be penalized for keeping in their business their life's blood in the way of capital that was so necessary for the existence of those companies. In addition to the losses that these corporations suffered during the remarkable experiences that we went through as a result of the war you plan further to destroy the credit and the capacity of these two companies to go on and pay their creditors and maintain their commercial reputation for honesty and business probity.
I would like to ask you where a corporation will land that has, we will say, $500,000 of net worth and $1,000,000 of assets, and that has a bunch of timber it is to saw out, if it makes say (and this is truly typical of the lumber business) $100,000 one year and pays a tax on it such as your bill provides and then loses $25,000 a year for two years and then makes $75,000 to $100,000 another year and then loses $25,000 a year for one, two or three years? How in

the world as long as it is owing the half million dollars can it continue in business and maintain its credit if it divides its profits for the year to its stockholders? If your measure becomes effective either the corporation that needs its profits to pay its debts must be penalized for keeping the profits in the business to pay the debts, or if it pays dividends, as it would seem your measure seeks to compel the corporation to do, the creditors in the end will whistle for their pay.

India's Tariff Policy

Great Britain in recent years has adopted the policy of enlarging the participation of the people of India in the government of that great dependency of the British crown. The measure of self-government as yet granted is limited, but in various ways the disposition to govern the country with due regard to the interests and wishes of the native population is manifest. Last year the Government of India appointed a tariff commission, consisting of eleven members, of whom six bear distinctively Indian names, while some of the others appear to be members of important British commercial houses, resident in India, to "examine with reference to all the interests concerned the tariff policy of the Government of India, including the question of the desirability of adopting the principle of Imperial Preference, and to make recommendations."

This Commission has submitted a report, in which it recommends as a general policy, in the best interests of India, "the adoption of a policy of protection, to be applied with discrimination along the lines indicated in this Report." It says that the decision in favor of a policy of protection rather than one of free trade is based on a careful analysis of the probable gain and loss.

The dispatch summarizing the report reads in part as follows:

> The justification of the policy rests largely on the manner in which it is worked, as it is held that any type of indiscriminate protection would entail a sacrifice on the part of the mass of the people out of proportion to the results. The Commission, therefore, proposes that a Tariff Board should be constituted as the instrument by means of which the policy would be "applied with discrimination." The Board should be a permanent body, consisting of three members of high standing and ability.
>
> Principles are laid down for the guidance of the Tariff Board. The three main conditions which should be satisfied in the case of an industry claiming protection are:—(a) That the industry possesses natural advantages; (b) that without the help of protection it is not likely to develop at all, or not so rapidly as is desirable; and (c) that it will eventually be able to face world competition without protection.
>
> As a qualification of these general conditions it is recommended that industries essential for purposes of national defence, and for the development of which conditions in India are not unfavorable, should, if necessary, be adequately protected. Further, the general principles are laid down that raw materials and industrial machinery should ordinarily be admitted free of duty, and that partly manufactured goods used in Indian industries should be taxed as lightly as possible.

The tariff is a new subject for discussion in India, and the arguments for protection are seldom presented so simply as in these recommendations. The fact is that they conform much more closely to the views of Alexander Hamilton, the father of protection in the United States, than our latest tariff legislation does.

The idea that makes a strong appeal in all countries not highly industrialized is that of up-building home manufactures to the point of securing a diversified, well-balanced industrial organization. The general idea is simple and attractive, but the practical task of making a tariff law is anything but simple or easy, as Washington can testify. For instance, the task of determining just what commodities shall be classed as raw materials and admitted free of duty is an exceedingly controversial one. The Indian Commission has practically all reputable economic authority with it in laying down the principle that in the long run every industry should expect to travel on its own feet and pay its own way.

Personal Incomes

The statistics of personal incomes for 1920, as reported to the Bureau of Internal Revenue show that 64.39 per cent of the aggregate incomes were in the classes from $1,000 per year to $5,000 and 77.32 per cent in the classes from $1,000 to $10,000. Incomes in excess of $10,000 per year comprised 22.68 per cent of the total of reported incomes.

The class showing the largest aggregate of incomes is that from $2,000 to $3,000, in which the number reporting is 2,569,316, with total incomes of $6,184,543,368. The class showing the next highest aggregate of income is that with from $3,000 to $5,000, which includes a broader spread and has a total of $5,039,607,236. There are 1,337,116 in this class. The third class in aggregate income, but first in number reporting, is that with incomes from $1,000 to $2,000, the total of which is $4,050,066,618, with 2,671,950 reporting. Little doubt is entertained that if all incomes were reported, the latter would be the largest class, both in aggregate incomes and in number of recipients. There is reason to believe that a large number of incomes between $1,000 and $2,000 are not reported, although the increase of reported incomes in this class has been quite remarkable.

The following table shows the aggregate incomes in the several classes for the year 1918 and 1920. It will be seen that the classes below $50,000 all show increases, but the classes from $50,000 up all show decreases. The most notable increases are in the lower classes, indicating that more individuals are reporting. The falling off in the higher classes is probably due to increased investment in tax-exempt securities.

AGGREGATE OF INCOMES

Income Classes	1920	1918
$1,000 to $2,000....	$4,050,066,618	$2,232,354,577
$2,000 to $3,000....	6,184,543,368	3,626,824,833
$3,000 to $5,000....	5,039,607,239	3,535,219,007
$5,000 to $10,000....	3,068,330,963	2,145,690,016
$10,000 to $25,000....	2,547,904,786	1,736,548,050
$25,000 to $50,000....	1,307,785,113	978,042,710
$50,000 to $100,000....	810,386,333	679,720,737
$100,000 to $150,000....	265,511,505	284,106,740
$150,000 to $300,000....	215,138,673	305,024,817
$300,000 to $500,000....	89,313,552	144,545,428
$500,000 to $1,000,000....	79,962,894	119,075,548
$1,000,000 and over	77,078,139	137,486,892
Total	$23,735,629,183	$15,924,639,355

National Bureau of Economic Research, Inc.

The second volume of "Income in the United States, Its Amount of Distribution, 1909-1919," by the National Bureau of Economic Research, Inc., has been issued.* We noticed the first volume when it came out about one year ago. The first volume summarized the results, while the second gives them by industries with much greater detail.

This inquiry into wealth-production, the purpose of which is to ascertain as closely as possible what is the amount of new wealth annually produced in the United States and how it is distributed, is the most thorough investigation of the subject ever made. Moreover, the inquiry has been made by statisticians and economists of the highest standing for ability and impartiality, under the supervision of a Board of Directors representing various economic interests and classes in the country, each of whom has given his personal approval to the findings. The regular Board of Directors at Large is composed as follows:

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*Headquarters, 474 West 24th St., New York City.

Pacific Live Stock Show

The symptoms of a growing interest of the West in improved live stock are numerous. The National Dairy Show has been held now for two successive years upon the Minnesota State Fair Grounds, and both meetings have been very successful ones.

The Pacific International Live Stock Exhibition is an organization with headquarters at Portland, which has been holding annual shows for several years, and in November last held one which is claimed to have been "the greatest live stock exhibition in the world." The Oregon State Legislature has supported this enterprise liberally, providing it with fine facilities. The main exhibition building is the largest of its kind in the world, covering ten acres under one roof, and cost $750,000. The beef cattle division has a capacity of 648 animals; the dairy division, 800; the hog division, 750; the sheep and goat division, 1,000, and there is a poultry division for the housing of the Western Poultry and Rabbit Show, containing some 3,000 birds and rabbits.

The dairy interest is already strong in the Pacific Northwest, as evidenced by the fact that while the American Jersey Cattle Club has provided eight championships for butterfat production among Jerseys seven of the eight records are held in Oregon alone.

All of this means better earnings for the beef producers and dairymen who keep good stock, but harder competition for those who keep the scrubs.

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